



Economic Impact Analysis Virginia Department of Planning and Budget

18 VAC 50-22 – Board for Contractors Regulations
Department of Professional and Occupational Regulation
February 12, 2007

Summary of the Proposed Amendments to Regulation

Virginia Acts of Assembly (2006) Chapters 454 and 475 specify that the Board of Contractors (Board) “shall include in its regulations a requirement that as a condition for initial licensure as a contractor the designated employee or a member of the responsible management personnel of the contractor shall have successfully completed a Board-approved basic business course, which shall not exceed eight hours of classroom instruction.” The Board proposes new regulatory language that: 1) includes the requirement that as a condition for initial licensure as a contractor the designated employee or a member of the responsible management personnel of the contractor shall have successfully completed a Board-approved basic business course, 2) specifies required attributes of the basic business course, 3) specifies requirements for course providers, and 4) details how course results are to be reported.

Result of Analysis

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section.

Estimated Economic Impact

As indicated above, Virginia Acts of Assembly (2006) Chapters 454 and 475 amended § 54.1-1102 of the Code of Virginia to state that “... the contractor shall have successfully completed a Board-approved basic business course, **which shall not exceed eight hours of classroom instruction.**” The Board proposes to specify in these regulations that “Courses **must be eight hours** in length.” Thus under the proposed regulations the course cannot be less than eight hours.

The most recent release (May 2005) of the U.S. Bureau of Labor Statistics Occupational Employment Statistics listed the average hourly wage for a construction manager in Virginia as \$43.47. This information allows us to estimate the value of an hour of a construction manager's time to be \$43.47. Just accounting for the time of the course, and not including travel time, the required eight-hour course will cost approximately \$348 of the construction manager's time. According to the Board, the providers have charged from \$130 to \$400 for their respective courses while this regulation has been in effect as an emergency regulation. Thus not including the time and dollars associated with travel, the required basic business course will cost contractors at least \$475.

According to the Department of Professional and Occupational Regulation (DPOR),

Since January 2003, the Board has adjudicated nearly 2000 disciplinary cases, with over 1900 of those cases involving disciplinary action against businesses holding a contractor license. As a result of those cases the Board has levied \$4.2 million in fines, revoked 618 licenses, sent 1059 contractors to remedial education classes and reimbursed consumers over \$3 million from the Contractor Transaction Recovery Fund. The citizens filing complaints against and being harmed by these contractors were subject to deliberate fraud in only a small percentage of the cases, while over three-quarters of the sanctions levied by the Board involve violations that could have been prevented if the licensees had been provided with the knowledge of some basic business tools The implementation of this requirement will likely result in a decrease in the number of complaints received against contractors who have been through the training, a significant advantage to the public, in that less consumers will be subject to financial harm.

Thus, to the extent that the required basic business course will in practice reduce the incidence of unintended financial harm, the requirement that the contractor shall have successfully completed a Board-approved basic business course will provide public benefit. The magnitude of this potential public benefit is not yet known. Therefore we cannot determine definitively whether the value of this benefit exceeds the more easily estimated cost of the required course.

Businesses and Entities Affected

The proposed amendments affect the approximate 10,000 applicants for new contractor licenses each year. According to DPOR, about 99 percent of those applications are for small businesses. The proposed amendments also affect providers of basic business courses.

Localities Particularly Affected

The proposed regulations do not disproportionately affect specific localities.

Projected Impact on Employment

The requirement that as a condition for initial licensure as a contractor the designated employee or a member of the responsible management personnel of the contractor shall have successfully completed a Board-approved basic business course will increase employment for providers of these courses. Most potential contractors will absorb the cost of this new requirement. The cost may discourage a few marginal potential contractors from entering the business.

Effects on the Use and Value of Private Property

The requirement that as a condition for initial licensure as a contractor the designated employee or a member of the responsible management personnel of the contractor shall have successfully completed a Board-approved basic business course will in most cases increase the effective cost for initial licensure as a contractor by at least \$475. The firms will receive some benefit from the course; so, the effective net cost to the firms will be somewhat less. The requirement will clearly increase demand for the course and will consequently increase revenue and net value for providers of the courses.

Small Businesses: Costs and Other Effects

According to the U.S. Bureau of Labor Statistics, as of May 2005 the average hourly wage for a construction manager in Virginia was \$43.47. Thus we can estimate the value of an hour of a construction manager's time to be \$43.47. Just accounting for the time of the course, and not including travel time, the required eight-hour course will cost construction managers approximately \$348 of the construction manager's time. According to the Board, the providers have charged from \$130 to \$400 for their respective courses while this regulation has been in effect as an emergency regulation. Thus not including the time and dollars associated with travel, the required basic business course will cost small contractors at least \$475.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The Code of Virginia (§ 54.1-1102) states that the Board of Contractors "shall include in its regulations a requirement that as a condition for initial licensure as a contractor the designated

employee or a member of the responsible management personnel of the contractor shall have successfully completed a Board-approved basic business course, which **shall not exceed eight hours** of classroom instruction.” Thus, the Code allows the possibility that a course provider could design a basic business course that sufficiently covered the necessary material in less than eight hours. The proposed regulations (18 VAC 50-22 – 300) state that “Courses **must be eight hours** in length.” The adverse impact to small businesses could potentially be modestly lessened if the proposed regulations matched the statutory language that allows for courses of less than eight hours. The current Board may not entertain the possibility that a course provider could design a basic business course that sufficiently covered the necessary material in less than eight hours, but future board members may be willing to consider such courses.

References

U.S. Bureau of Labor Statistics Occupational Employment Statistics, May 2005,
“<http://www.bls.gov/oes/#data>”

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the

regulation. The analysis presented above represents DPB's best estimate of these economic impacts.